

# Fiscal Note

**BILL #** SB 1116

**TITLE:** ~~tax credit; foster care organizations~~ S/E: municipal tax exemption; residential lease

**SPONSOR:** Livingston

**STATUS:** As Amended by House WM

**PREPARED BY:** Molly Murphy

## Description

The bill would prohibit municipalities from imposing a tax or fee on the business of renting or leasing real property for residential purposes effective January 1, 2023.

## Estimated Impact

Since the state does not currently impose the Transaction Privilege Tax (TPT) on leased or rented real residential property, the bill would not have an impact on the state General Fund. However, the bill is estimated to reduce municipal tax revenues by \$(78.3) million in FY 2023 and \$(202.0) million in FY 2024, which is the first fiscal year with a full-year impact.

## Analysis

Based on Department of Revenue (DOR) data reported through March we estimate that municipalities will collect a total of \$176.0 million in sales tax revenue from residential leases in FY 2022.

IHS Markit, an international economic consulting firm, projects that property income in Arizona will grow by 6.6% in FY 2023 and 7.7% in FY 2024. Based on that forecast, we project that municipal rental sales tax will generate \$188.0 million in FY 2023 and \$202.0 million in FY 2024.

Since the bill would go into effect on January 1, 2023, the FY 2023 impact would be limited to the last 5 months of the fiscal year. Therefore, we estimate that the bill would result in a revenue loss to municipalities of \$(78.3) million in FY 2023. Beginning in FY 2024, when the first full-year impact would occur, the municipal revenue loss is an estimated \$(202.0) million.

## Local Government Impact

See above.

